

Foreclosure Trends

Q2 2016

Joseph Speer

Research Specialist

RESEARCH AND PLANNING DIVISION

Tennessee Housing Development Agency
Andrew Jackson Building
502 Deaderick St., Third Floor
Nashville, TN 37243



Key Findings:

- Tennessee’s foreclosure rate ranked 41st in the nation as of June 2016 at 0.4 percent.¹ This continues to be the lowest foreclosure rate in the Southeastern United States.
- While the 2nd quarter averages of delinquency, REO, and foreclosure totals were lower statewide than in the 1st quarter, there was very little change on a month-to-month basis during the 2nd quarter. Total delinquencies at the end of June, for example, were about the same as they had been at the end of April. As the state has seen declines in all three categories continuously overall the last several years, it may be that delinquency, REO, and foreclosure totals are beginning to hit their floor.
- A handful of counties on the periphery of the Memphis metropolitan area, most notably Hardeman, Haywood, Lauderdale, and Henderson have the state’s highest overall county-level rates of delinquency, REOs, and foreclosures, but none of these counties are experiencing a significant increase in any of the three categories. Generally, delinquencies, REOs, and foreclosures are also declining in these counties, but foreclosures are declining most substantially.
- Several Tennessee counties have such a small pool of active home loans that their overall rankings in the Delinquency, REO, and Foreclosure Indices are almost automatically near the top. The prime example of this is Hancock County, which, despite fewer than 10 delinquencies and fewer than five REOs or foreclosures, ranks in the top 10 for each Index.

The past several years of Tennessee’s housing market data have fit well into the broader narrative of recovery from the Great Recession. Since their peak levels in 2011-12, Tennessee’s delinquency, REO, and foreclosure totals have steadily diminished. The statewide averages for the 2nd quarter of 2016 reflect this; total foreclosures declined by nearly 15 percent from the first quarter of 2016, while total delinquencies declined by nearly eight percent, and REOs by over 23 percent.

Of the state’s four largest counties, Memphis has the highest across all three Index Values², with Nashville, Knoxville, and Chattanooga generally below the statewide average in all three categories.

Tennessee’s Four Most Populous Counties, Compared (listed by Population)			
County	Delinquency Index	REO Index	Foreclosure Index
Shelby	175	162	168
Davidson	69	29	65
Knox	67	84	72
Hamilton	104	73	81

However, within Tennessee, the highest rates of delinquencies, REOs, and foreclosures are generally found within smaller counties, often in West Tennessee. While this has been the case for the past several quarters, the foreclosure rates of Haywood, Henderson, and Lauderdale Counties have shown significant

¹ http://www.corelogic.com/research/the-market-pulse/marketpulse_2016-august.pdf

² By indexing county-level delinquency, REO, and foreclosure rates relative to the state average, we can show which areas of the state stand out. Shelby County’s Delinquency Index Value of 175, for example, signifies a delinquency rate 1.75 times the Tennessee overall delinquency rate.

declines over the past two quarters. Haywood County, for example, had a foreclosure rate of around one percent, or 1.8 times the Tennessee average in the 4th quarter of 2015 (an Index Value of 181). The foreclosure rate in Haywood County is now half of what it was six months prior, at just 1.17 times the state average.³

Tennessee Counties with High Index Values in all Three Categories (Irrespective of Population)			
County	Delinquency Index	REO Index	Foreclosure Index
Hardeman	262	224	250
Lauderdale	257	336	141
Haywood	245	180	117
Henderson	167	249	157

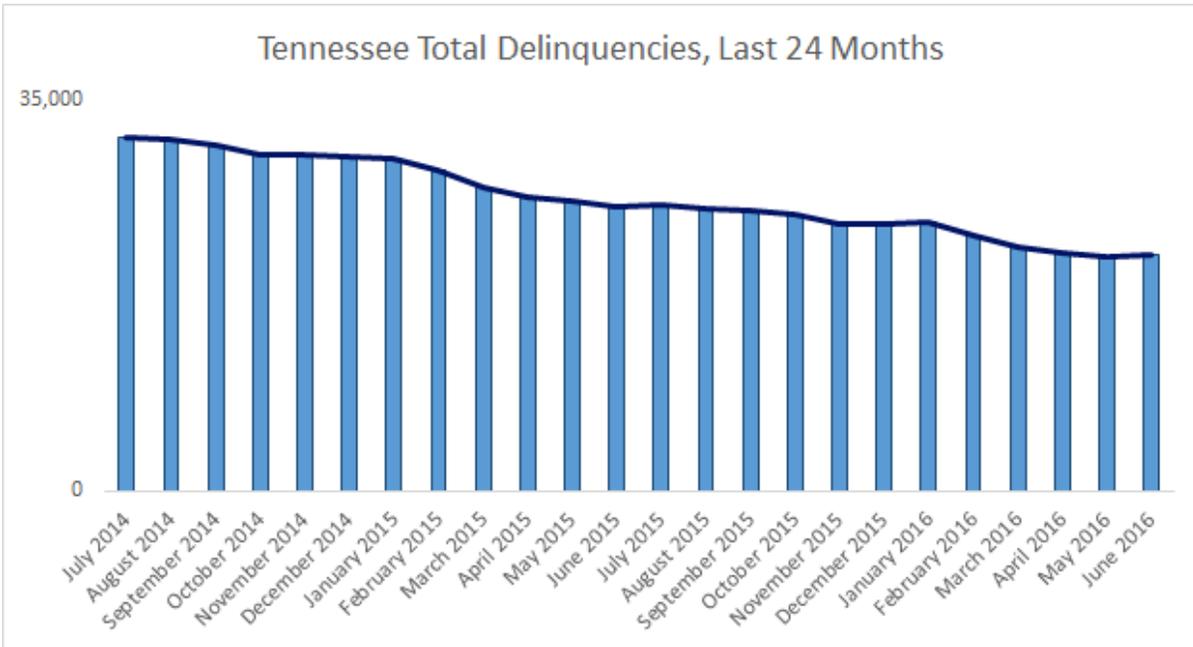
For each of the “foreclosure trend” variables, there are five maps: four mapping index values by county (showing East, Middle, West, and the State of Tennessee) and a fifth map showing volume, by zip code, irrespective of rates. Because high Index Values may not necessarily reflect a noteworthy pattern (the highest zip code by Foreclosure Index Value, for example, held only three foreclosures, but was inflated by its extremely low number of active mortgages) the fifth map is provided to show “hot spots” by volume, whether it be delinquencies, REOs, or foreclosures. These zip code-level maps of high volume are highly correlated with population, whereas county-level Index maps adjust for each county’s pool of active home loans.

DELINQUENCY

In the second quarter of 2016, loan delinquencies in Tennessee declined by roughly eight percent compared to the first quarter of 2016, and by roughly 19 percent compared to the second quarter of 2015. While total delinquencies actually increased slightly from May to June, the quarterly average still represented a substantial decline.⁴ In total, Tennessee has now experienced 13 consecutive quarters of declines in loan delinquency.

³ Because the Tennessee foreclosure rate has declined substantially in just two quarters, Haywood County’s foreclosure rate remains above the state average—however, were its Q2 2016 foreclosure rate indexed to the Q4 2015 state average, Haywood would have a Foreclosure Index Value of 90.

⁴ Due to the reporting cycle of county governments across the state, it is likely that the delinquency total is slightly understated for the month of March 2016. In the coming months, adjustments may include additional delinquencies unreported in the initial data release. Based on prior month adjustments, it is not likely that revisions will be of a magnitude that would change the conclusions reached above.



This decline in delinquencies was consistent across larger and smaller, urban and rural counties; 82 of Tennessee’s 95 counties saw their totals decrease, compared to just nine counties that experienced an increase in delinquency (four counties saw no change). The magnitude of county-level decreases was vastly larger than any of the nine counties that saw an increase; while Shelby County’s delinquency totals fell by more than 300, the most any Tennessee county increased was by just three delinquencies.

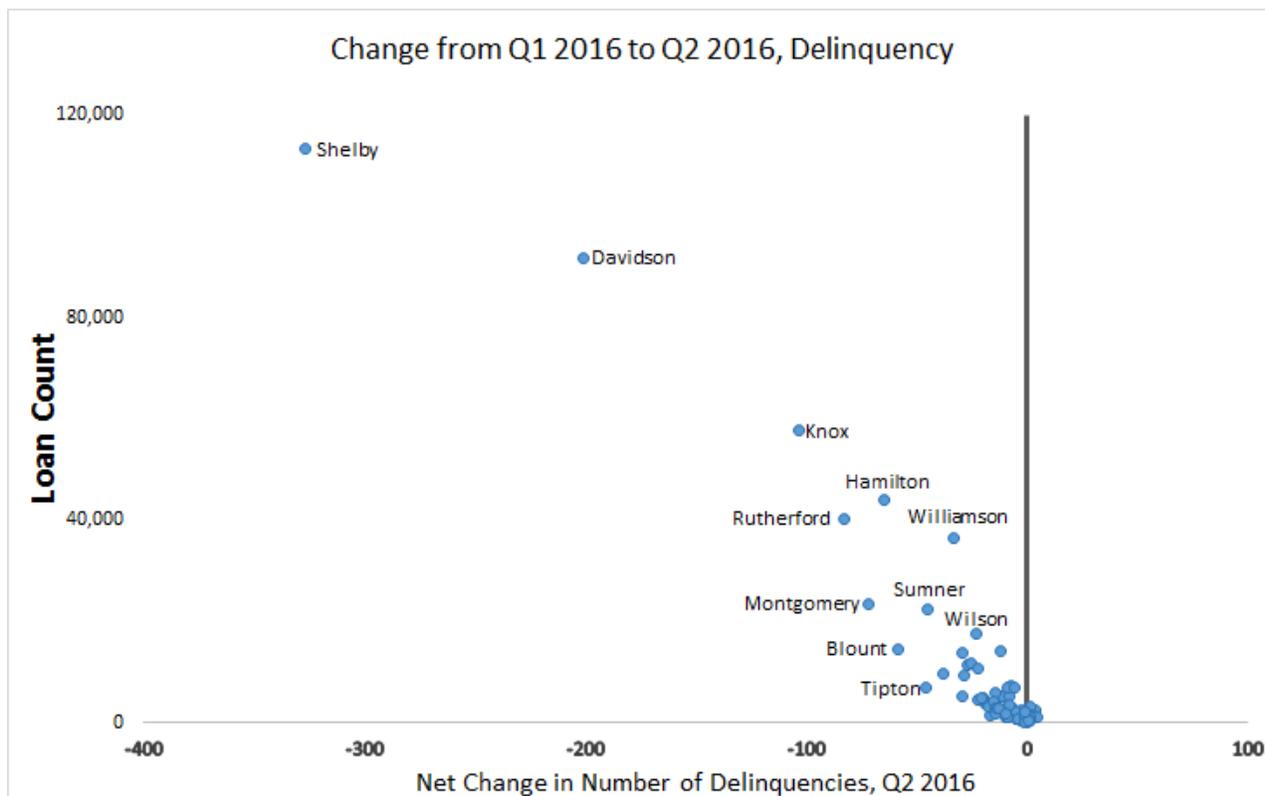
The 10 Counties with the Highest Delinquency Index Values					
	County	Delinquency Index Value	Percent Change from Q1 2016 Index Value	Percent Change from Q2 2015 Index Value	Grand Division
1	Hardeman	262	-4.2%	5.6%	West
2	Lauderdale	257	8.0%	17.9%	West
3	Haywood	245	-2.6%	22.2%	West
4	Lake	199	7.7%	38.1%	West
5	Hancock	178	-7.3%	30.0%	East
6	Shelby	175	1.7%	2.1%	West
7	Henderson	167	0.7%	26.9%	West
8	McNairy	151	-10.2%	-4.5%	West
9	Sequatchie	148	2.2%	16.9%	Middle
10	Crockett	146	-1.0%	-8.9%	West

*State delinquency rate=100. Hardeman County’s delinquency rate equals 2.62 times the Tennessee rate.

**A positive value in “percent change” columns reflects an increase in the Index Value, not necessarily an increase in a county’s delinquency rate. A county could see its delinquency rate fall, but if the state average falls faster, the county will show positive values in these columns.

Of the 10 counties at the top of the Delinquency Index, eight (excluding Lauderdale and Lake) saw their delinquency totals decrease in the first quarter, with Hardeman and McNairy County in particular experiencing improvements. In fact, Hardeman and McNairy Counties had the state's largest delinquency declines *relative* to the size of their mortgage market. Yet many of the above counties' finished with positive values in the "Percent Change" columns, because the rest of Tennessee simply saw their delinquency totals decrease more dramatically. For the third consecutive quarter, Williamson County ranked in the bottom five of the Delinquency Index, finishing with a delinquency rate one-fifth of the Tennessee overall rate.

The chart below demonstrates both the extent to which the statewide declines in delinquency are geographically dispersed, and the extent to which a county may see its Delinquency Index Value increase, despite delinquency totals shrinking. Nowhere is this more evident than in Shelby County, whose Delinquency Index Value went up from the previous quarter, while actual delinquencies decreased by over 300. Meanwhile, Blount and Tipton Counties, as shown, experienced some of the strongest declines in delinquency. The size (loan count) of Hardeman and McNairy Counties was too low for either county to be discernible from the cluster of blue dots at the bottom right of the chart, despite these two counties, as mentioned earlier, saw the largest delinquency declines relative to their size.

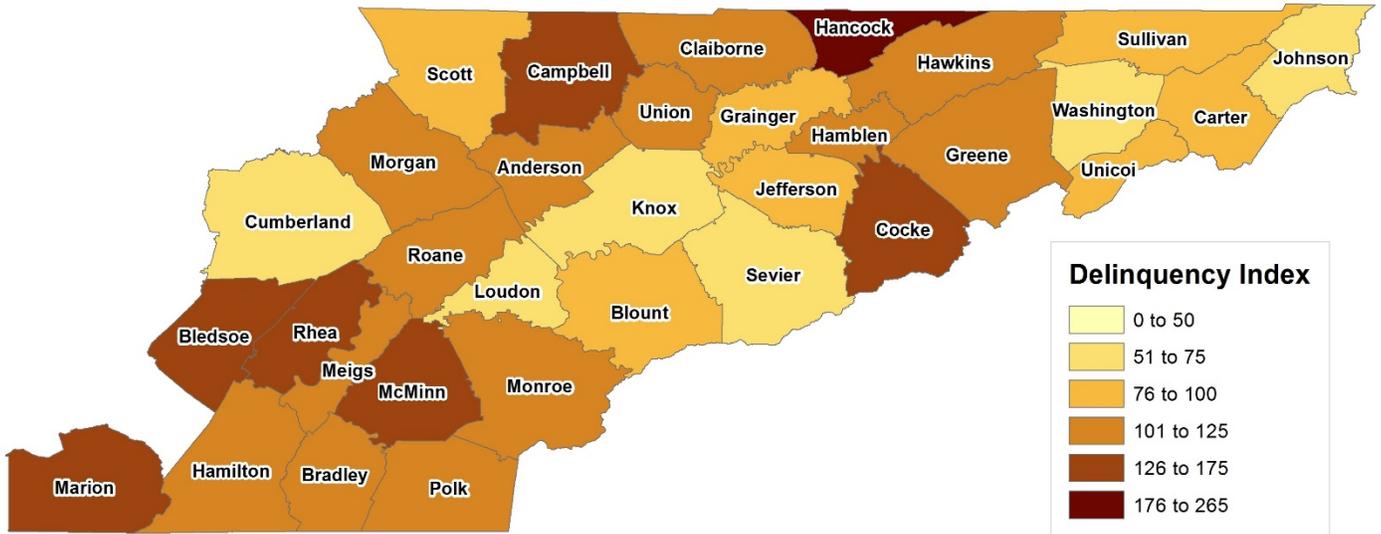


While Maps 1-4 display county-level delinquency outcomes, the top zip codes are listed, and then mapped in Map 5. Map 5 focuses on the delinquency hot spots, showing high totals of delinquencies, rather than

the Index Values in Maps 1-4. As seen in map 5, 12 of the top 15 zip codes for delinquency were located in Shelby County.

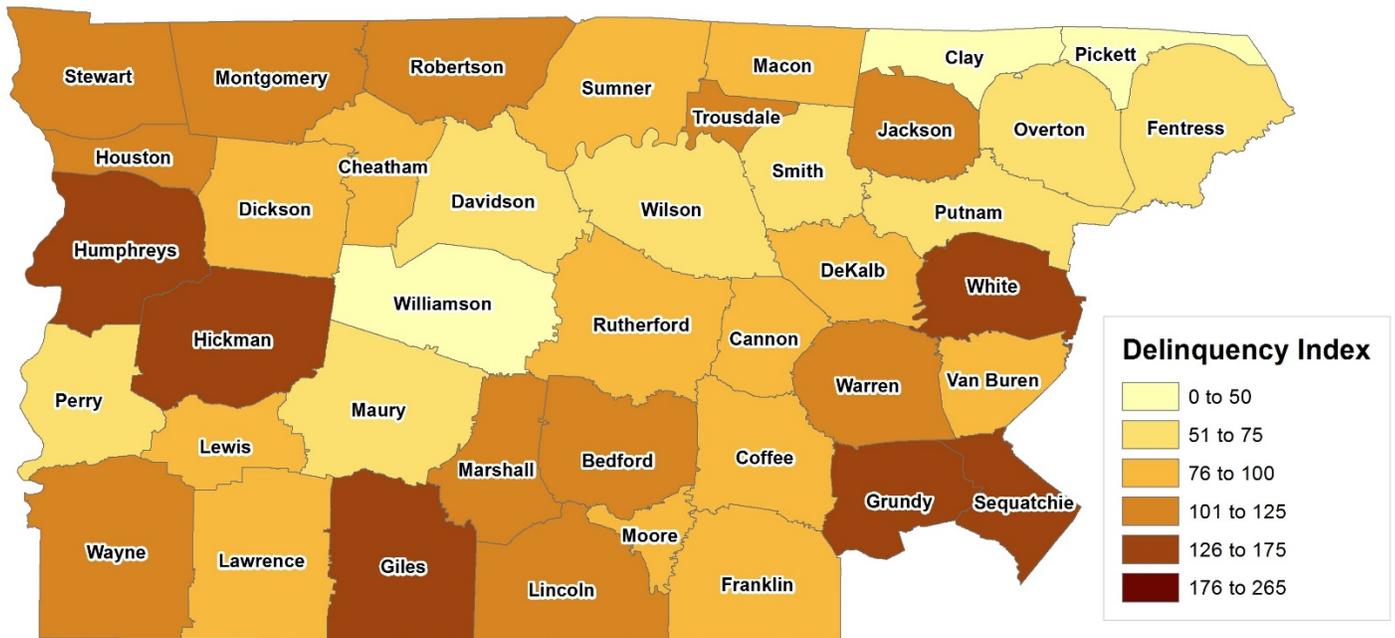
Map 1

East Tennessee Delinquency Index Values by County



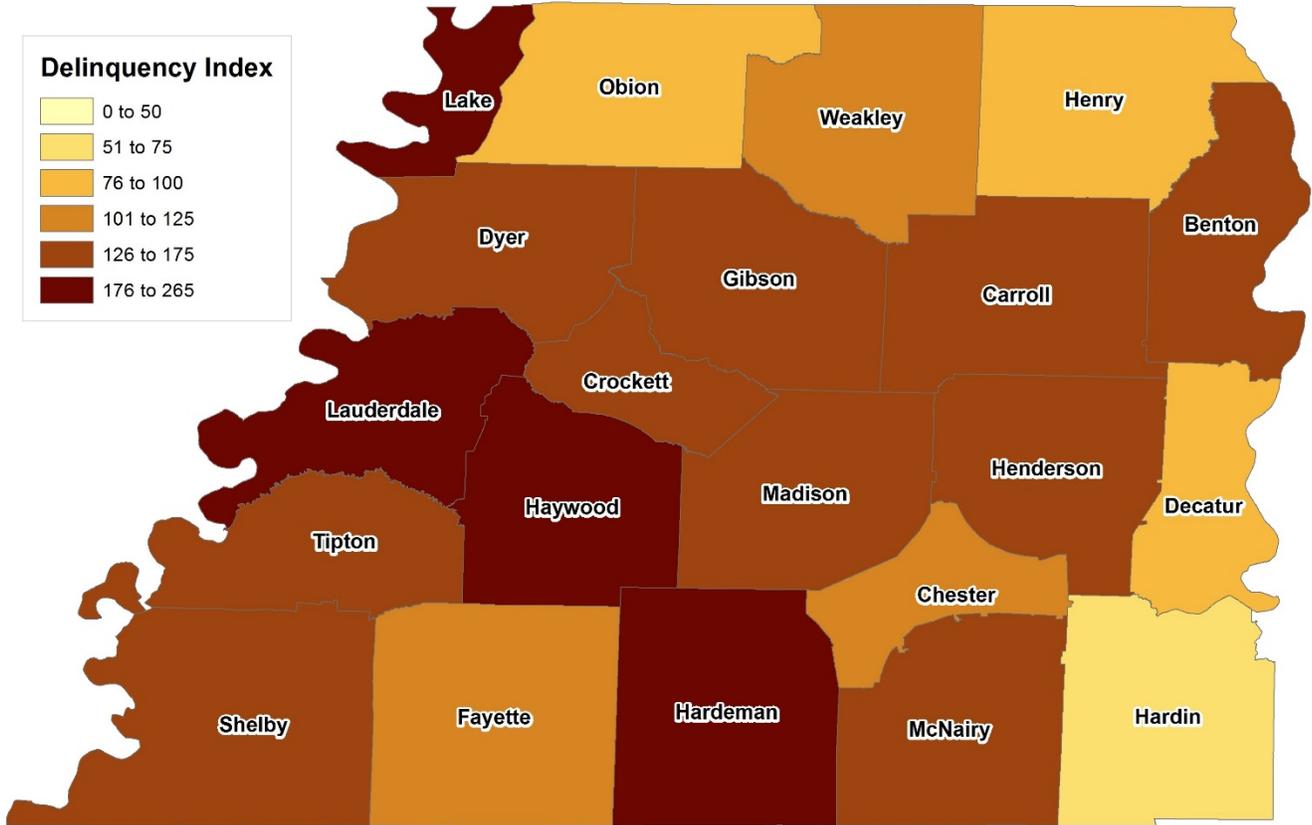
Map 2

Middle Tennessee Delinquency Index Values by County



Map 3

West Tennessee Delinquency Index Values by County

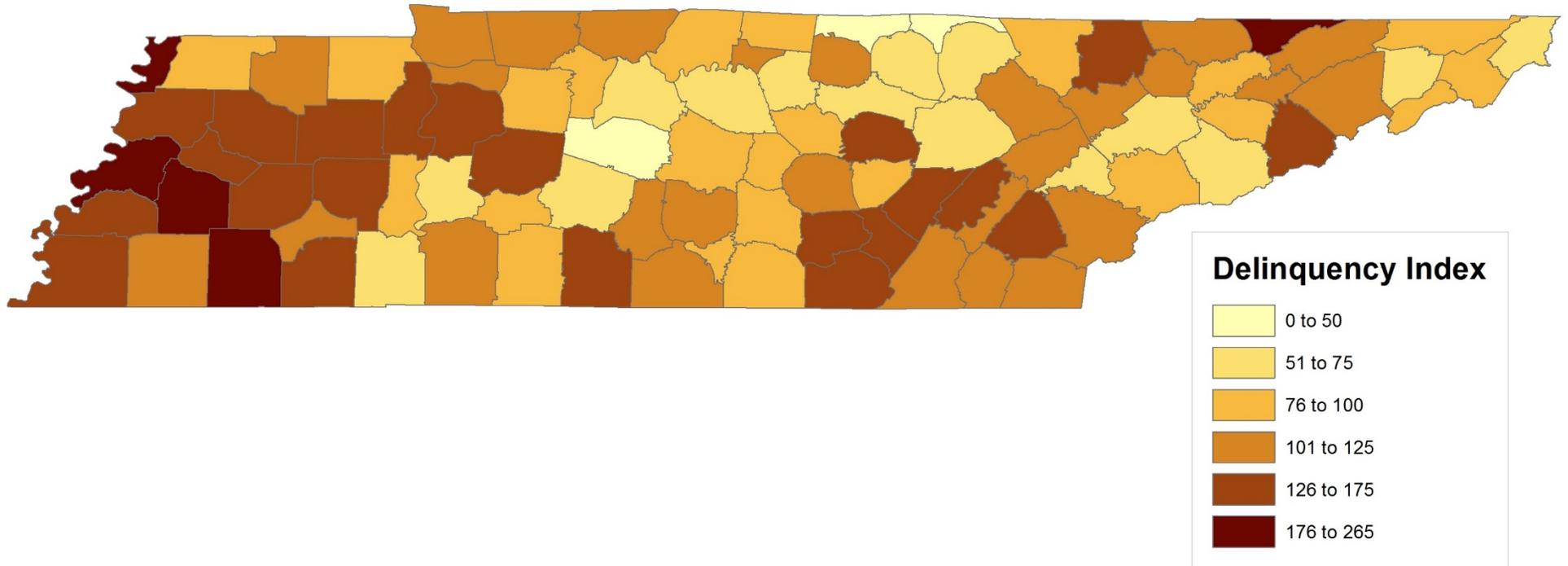


Top 5 Tennessee Zip Codes for Delinquency Index*

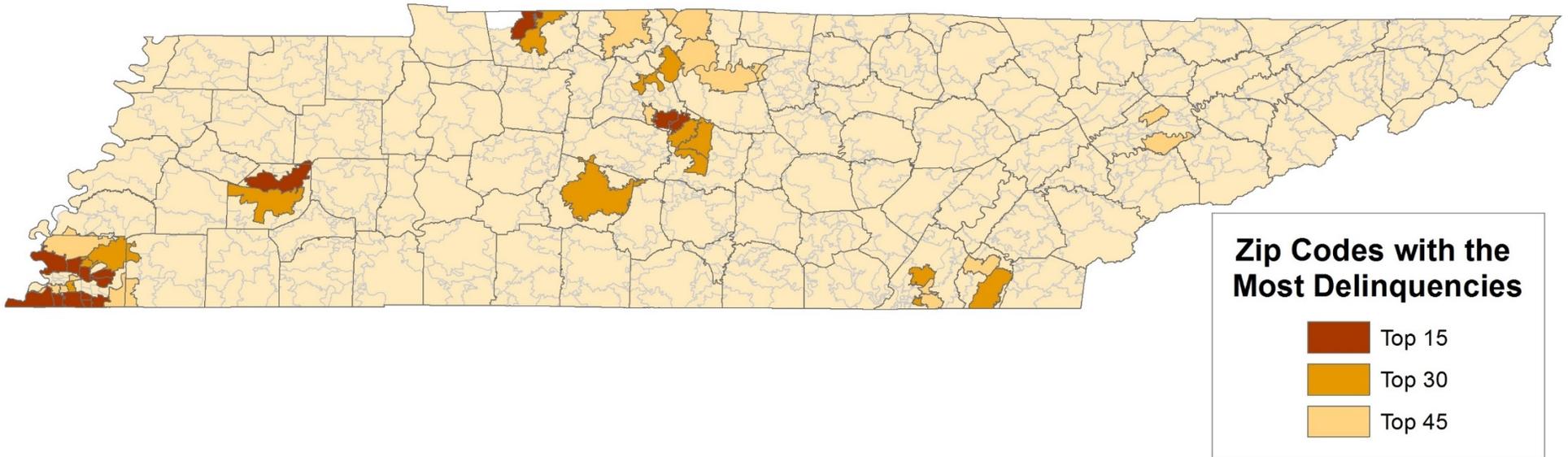
38105	[Shelby; Memphis]	Index Value=427
37407	[Hamilton; Chattanooga]	Index Value=419
38106	[Shelby; Memphis]	Index Value=408
38041	[Lauderdale; Henning]	Index Value=380
38127	[Shelby; Memphis]	Index Value=372

Excluding Zip Codes with fewer than 100 loans

Tennessee Delinquency Index Values by County



The Top Tennessee Zip Codes for Delinquencies



Top 5 Tennessee Counties for Delinquency Volume

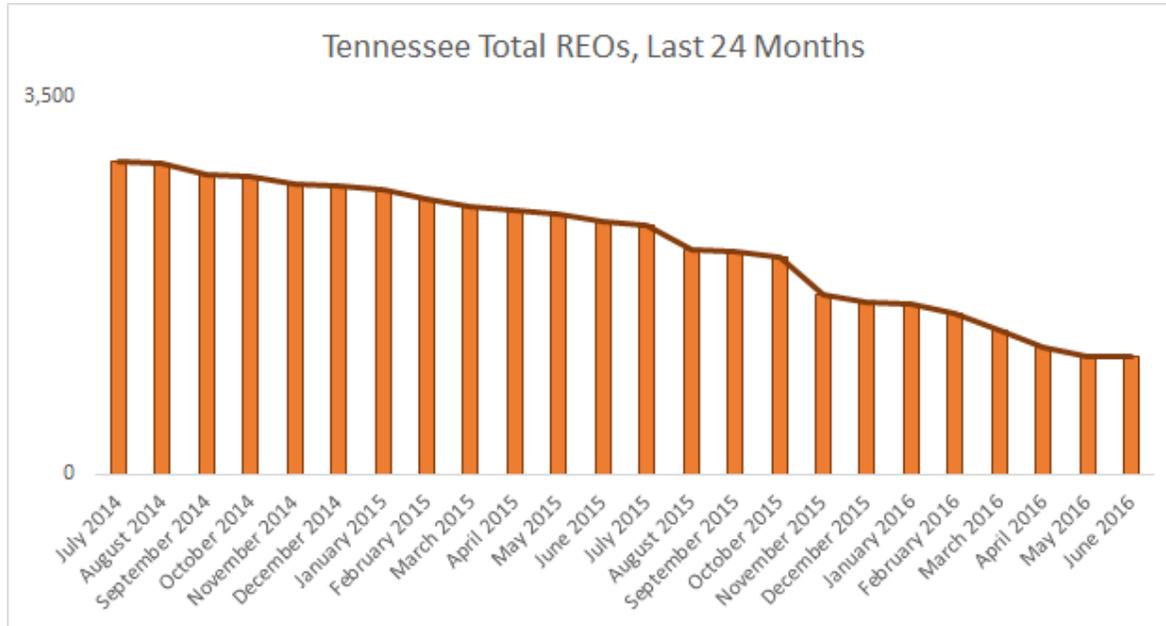
- Shelby**
- Davidson**
- Hamilton**
- Knox**
- Rutherford**

Top 5 Tennessee Zip Codes for Delinquency Volume

- 38125** [Shelby; Memphis]
- 38128** [Shelby; Memphis]
- 37042** [Montgomery; Clarksville]
- 38127** [Shelby; Memphis]
- 37013** [Davidson; Nashville]

REAL ESTATE OWNED (REO) INVENTORY

In the second quarter of 2016, Real Estate Owned (REO) properties in Tennessee declined by roughly 24 percent from the previous quarter, which amounted to a 53 percent decline from the previous year.



Two thirds of Tennessee counties saw their REO totals fall in the first quarter (65 of 95 counties). Much like delinquency, the magnitude of countywide REO declines was much greater than the REO increases experienced elsewhere in the state; Shelby County saw its REO total decrease by almost 100 properties, while three REOs were the most gained by any one county during the second quarter.

The 10 Counties with Tennessee's Highest REO Index Values					
	County	REO Index Value	Percent Change from Q1 2016 Index Value	Percent Change from Q2 2015 Index Value	Grand Division
1	Wayne	636	58.9%	129.5%	Middle
2	Bledsoe	556	51.1%	193.9%	East
3	Sequatchie	451	30.7%	141.3%	Middle
4	Houston	449	51.3%	640.2%	Middle
5	Hancock	402	308.8%	108.4%	East
6	Lake	344	310.7%	14.4%	West
7	Lauderdale	336	-1.4%	58.1%	West
8	Stewart	318	134.6%	44.2%	Middle
9	Humphreys	291	55.6%	-19.8%	Middle
10	Monroe	287	31.7%	44.0%	East

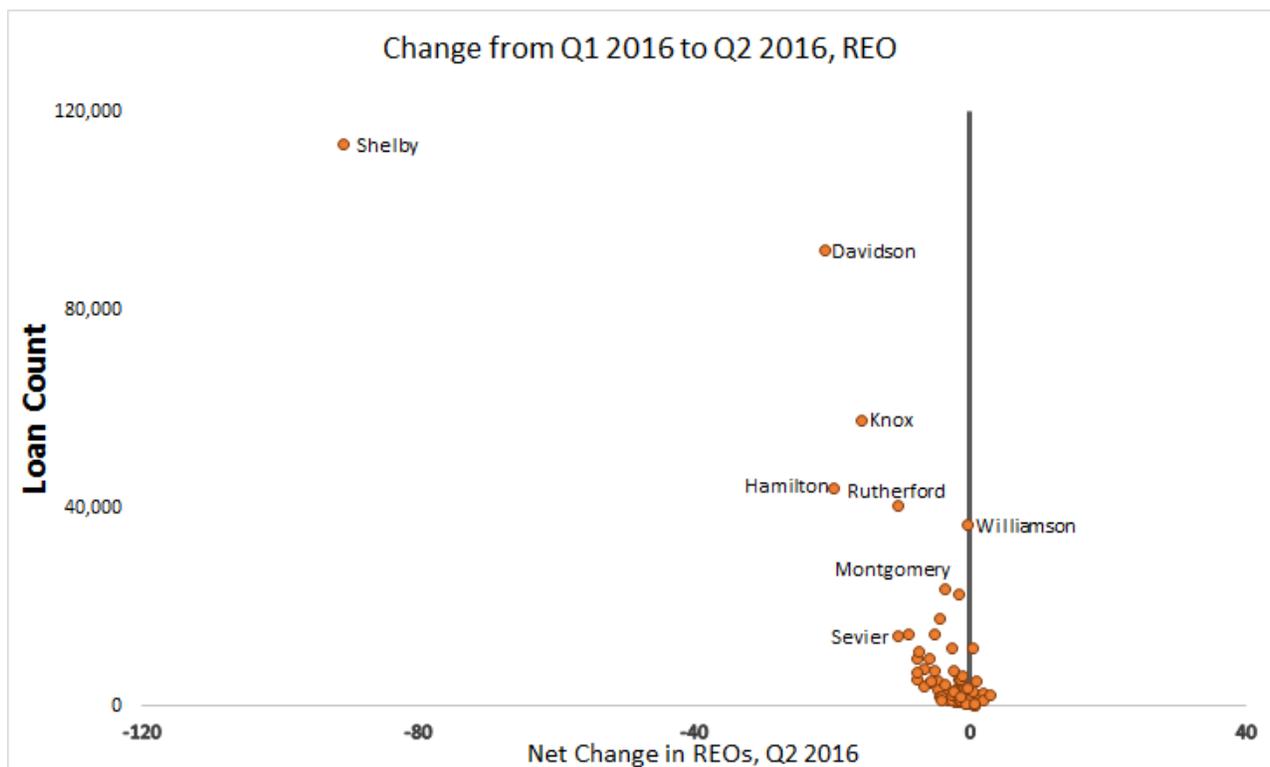
*State REO rate=100; Wayne County's value of 636 denotes an REO rate 6.36 times that of the Tennessee overall rate.

**A positive value in "percent change" columns reflects an increase in the Index Value, not necessarily an increase in a county's REO rate. A county could see its REO rate fall, but if the state average falls faster, the county will show positive values in these columns.

Unlike delinquency, the distribution of the REO Index is far less clustered around the state average of 100; with a maximum value reaching more than six times the state average. Furthermore, the highest value counties are primarily smaller, rural counties; Shelby County, for example, is ranked 41st overall in REO rate, which, given the county's ranking in related measures, may seem surprisingly low.

The REO Index is prone to dispersion and extremes for two reasons: one, the relative infrequency of REOs in Tennessee, and two, the lack of home price appreciation in smaller, rural counties, which can increase REO incidence. In the second quarter of 2016, a delinquent loan was almost 19 times more frequent than an REO in Tennessee. In fact, there were six counties that averaged exactly zero REOs for the quarter. This infrequency inevitably leads to huge swings in REO Index Values. Because REOs make up less than three tenths of a percent of Tennessee's active home loans, a countywide increase from four to six REOs, for example, very well could vault it into the upper end of the REO Index.

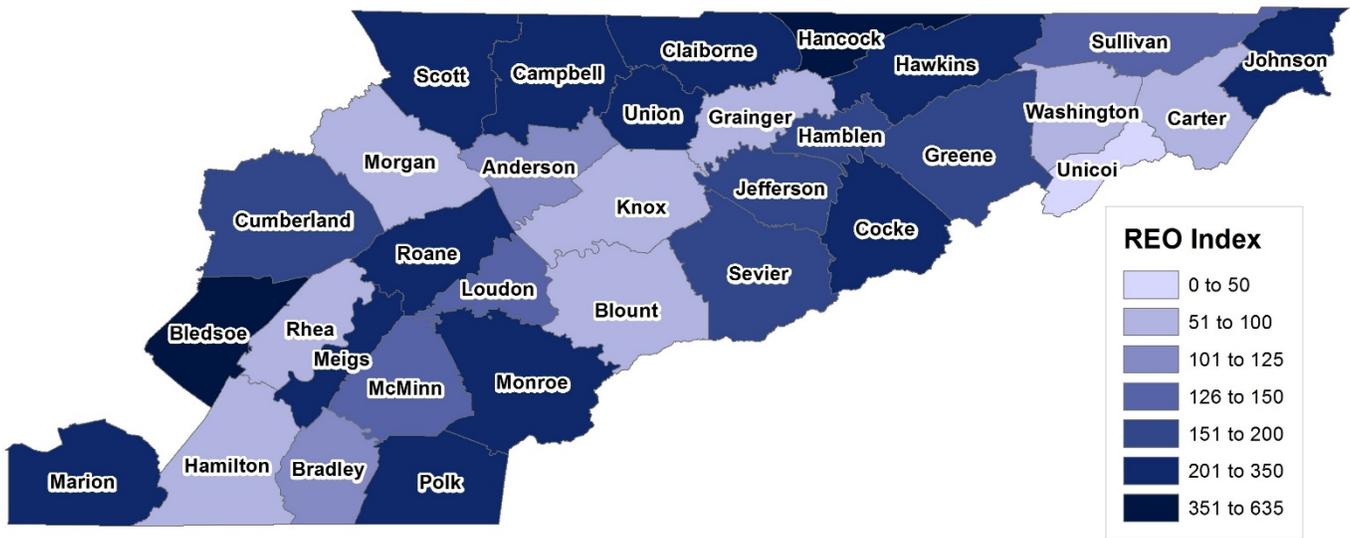
This statistical reality of REOs is compounded further by the fact that several of Tennessee's urban areas are enjoying healthy demand and growth in home values; in larger counties, it is likely that lenders have greater success auctioning off foreclosed homes, where a high amount owed is more likely to be exceeded by the value of the property itself. In smaller counties still recovering from the foreclosure crisis with home values still low, more of these homes may fail to sell at auction.



The top REO Index zip codes are far more scattered across the state’s smaller counties than the top zip codes in the Delinquency Index, which were by and large in Shelby County (listed on page seven). Instead, the upper end of the zip code Index more closely mirrors the upper end of the county level Index. Maps 6-9 show county-level REO Index values by grand division, and Map 10 is included to show the 45 Tennessee zip codes with the highest REO totals, which were generally found in Tennessee’s most populous zip codes in metro areas. For the second straight quarter, Sevierville (zip code 37876) finished in the top 15 for REO volume, despite ranking 37th in active loan totals.

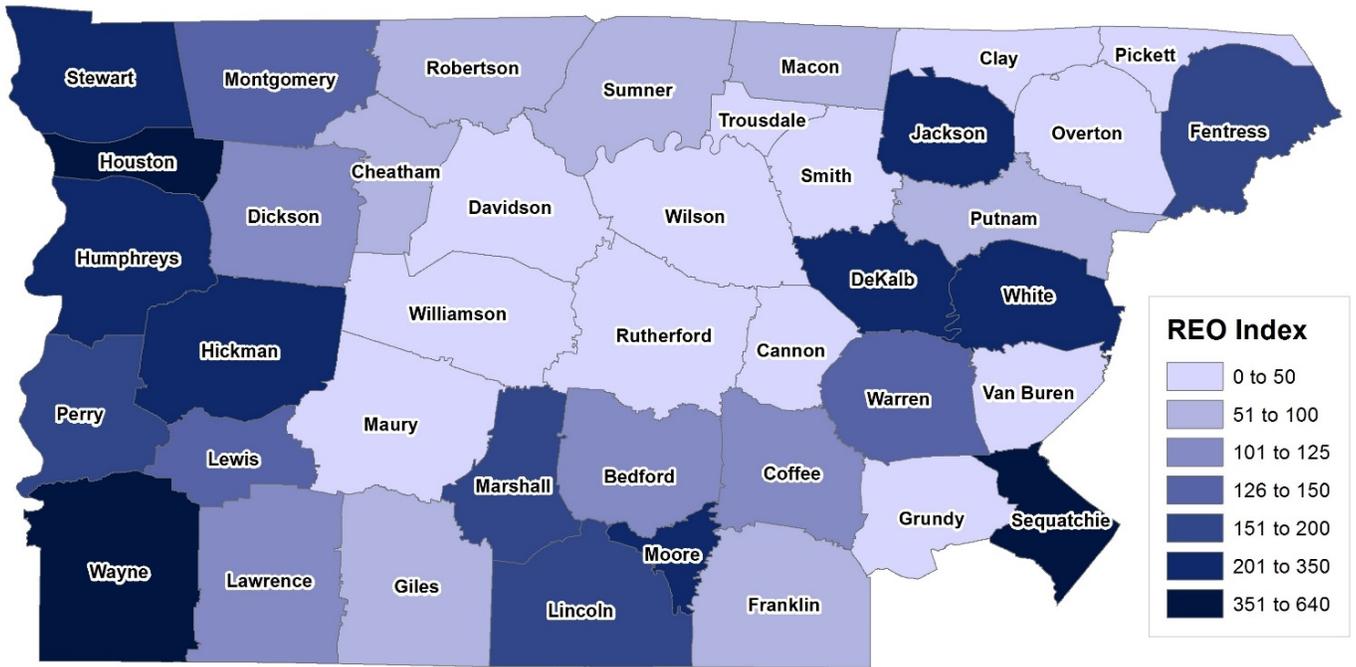
Map 6

East Tennessee REO Index Values by County



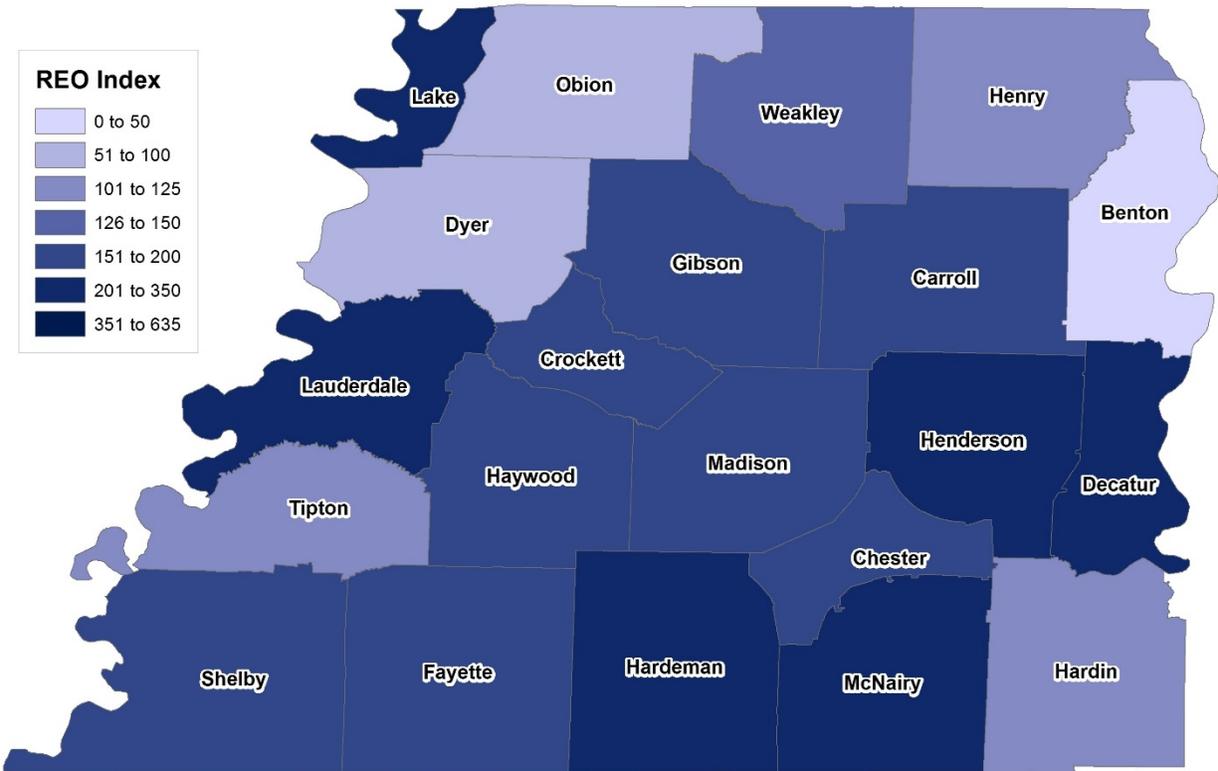
Map 7

Middle Tennessee REO Index Values by County



Map 8

West Tennessee REO Index Values by County



Top 5 Tennessee Zip Codes for REO Index*

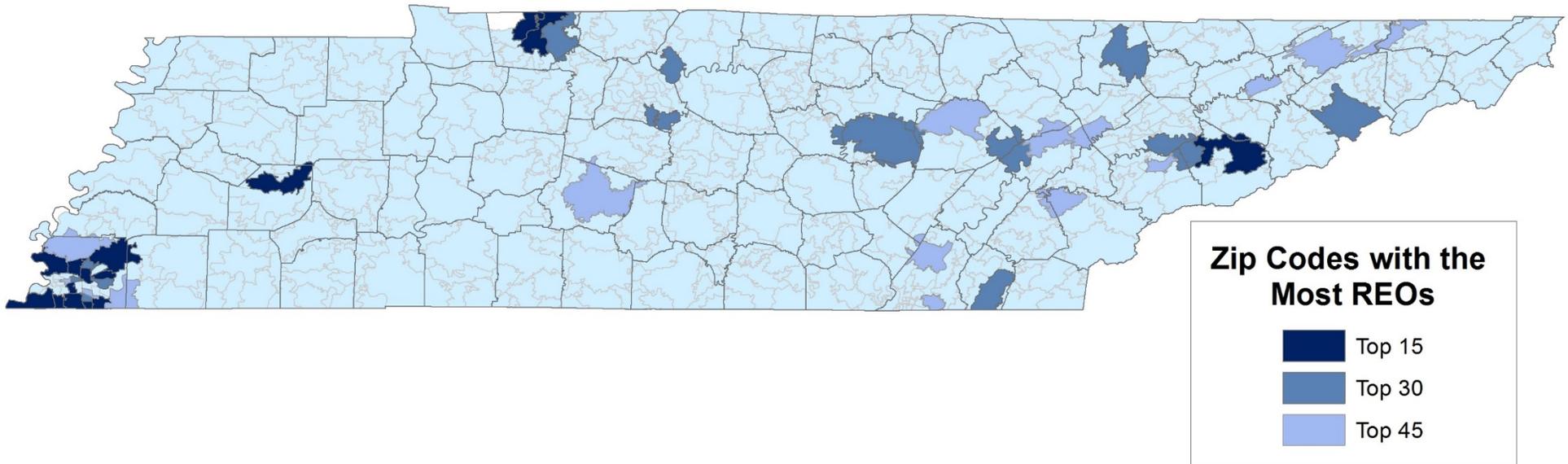
38425	[Wayne; Clifton]	Index Value=1329
38041	[Lauderdale; Henning]	Index Value=1307
38450	[Wayne; Collinwood]	Index Value=1307
37724	[Claiborne; Cumberland Gap]	Index Value=1133
37328	[Lincoln; Elora]	Index Value=1098

Excluding Zip Codes with fewer than 100 loans

Tennessee REO Index Values by County



The Top Tennessee Zip Codes for REOs



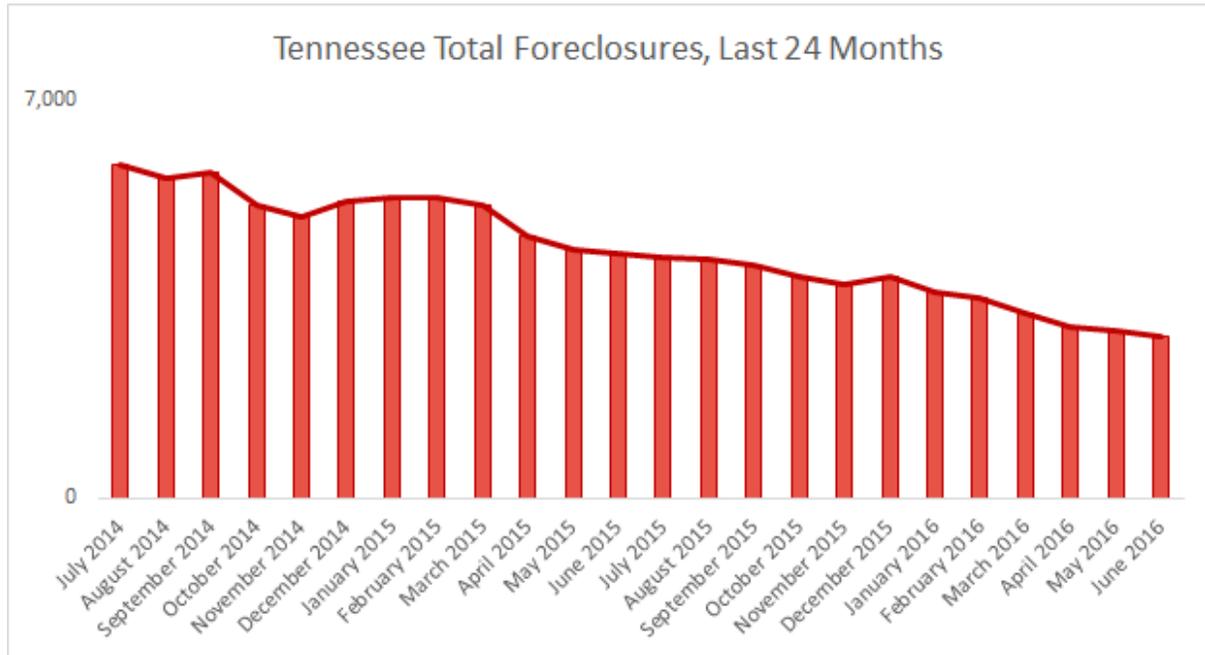
Top 5 Tennessee Counties for REO Volume

- Shelby
- Knox
- Hamilton
- Montgomery
- Davidson

Top 5 Tennessee Zip Codes for REO Volume

- 37042 [Montgomery; Clarksville]
- 38128 [Shelby; Memphis]
- 38125 [Shelby; Memphis]
- 38016 [Shelby; Cordova]
- 38116 [Shelby; Memphis]

FORECLOSURE RATES



As shown in the above figure, the decline in foreclosure totals continued in the second quarter of 2016, with a drop of 15 percent from the prior quarter. When compared to the second quarter of 2015, Tennessee has seen a 34 percent reduction in foreclosure inventory.

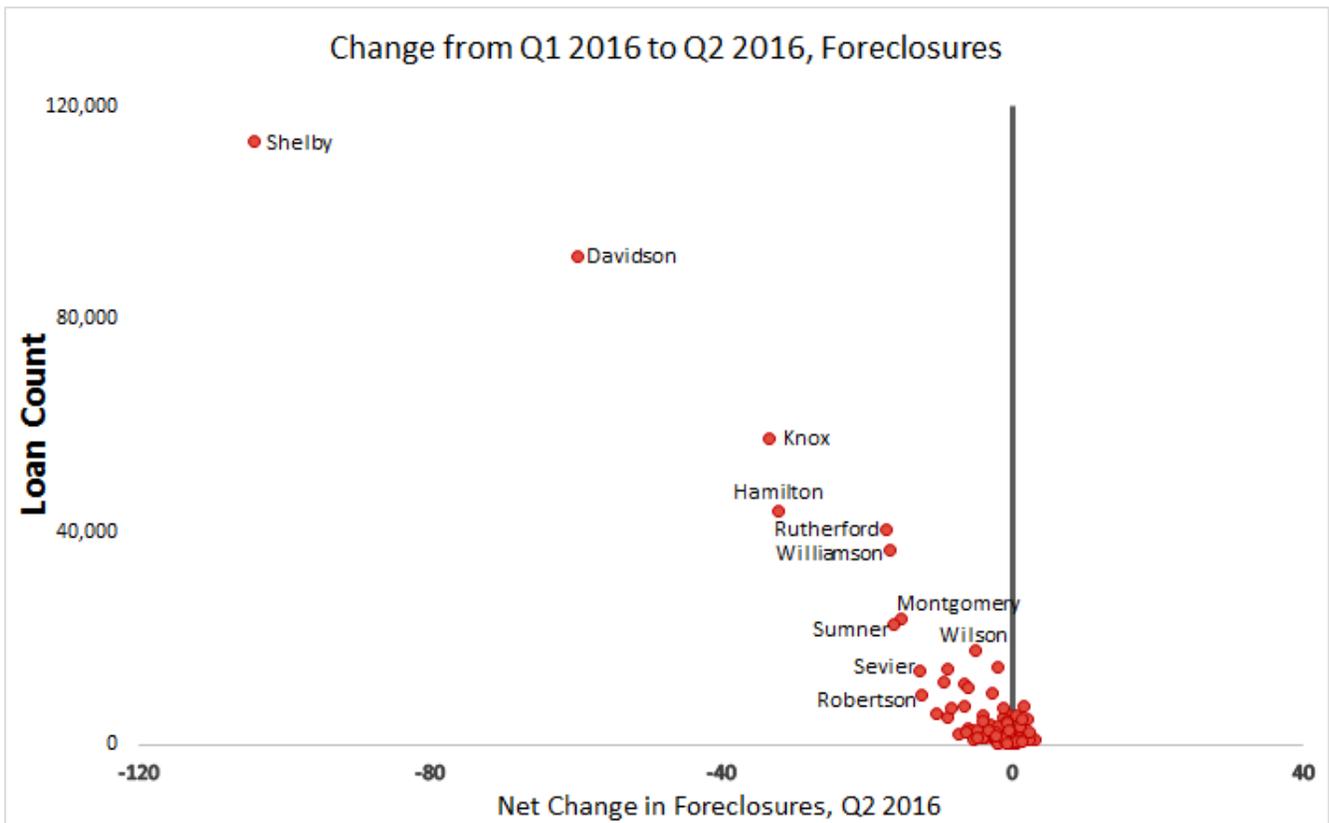
The 10 Counties with the Highest Foreclosure Index Values					
	County	Foreclosure Index Value	Percent Change from Q1 2016 Index Value	Percent Change from Q2 2015 Index Value	Grand Division
1	Hancock	296	-41.7%	21.1%	East
2	Benton	263	46.5%	471.1%	West
3	Hardeman	250	13.4%	24.6%	West
4	Stewart	192	46.2%	53.3%	Middle
5	Rhea	172	-1.1%	27.1%	East
6	Cocke	172	13.8%	23.0%	East
7	Fentress	169	102.9%	32.2%	Middle
8	Montgomery	169	0.2%	12.0%	Middle
9	Shelby	168	2.7%	2.8%	West
10	Claiborne	159	-12.1%	-16.6%	East

*State rate=100; Hancock County's value of 296 denotes a foreclosure rate 2.96 times that of the Tennessee overall rate.

**A positive value in "percent change" columns reflects an increase in the Index Value, not necessarily an increase in a county's REO rate. A county could see its REO rate fall, but if the state average falls faster, the county will show positive values in these columns.

In terms of volume, foreclosures are much closer to REOs than delinquencies, resulting in more erratic percentage changes on a quarter-to-quarter basis. Hancock County, for example, has only seen a handful

of foreclosures added over the past year, but because of its small size and the lower incidence of foreclosure, this was enough to spike Hancock County's Foreclosure Index Value to lead the state. As the state's smallest mortgage market (with fewer than 200 total active loans), Hancock County's state-leading foreclosure rate may not be the red flag its Index Value would indicate. The same may be said of Benton, Stewart and Fentress County as well. While it is likely that static real estate markets in some of Tennessee's smallest, rural counties (such as the above four counties) increase the likelihood of negative equity, strategic default and eventual foreclosure, the available data largely suggests that these counties are simply not experiencing the same foreclosure declines as seen elsewhere in Tennessee, rather than a dramatic uptick in foreclosure.

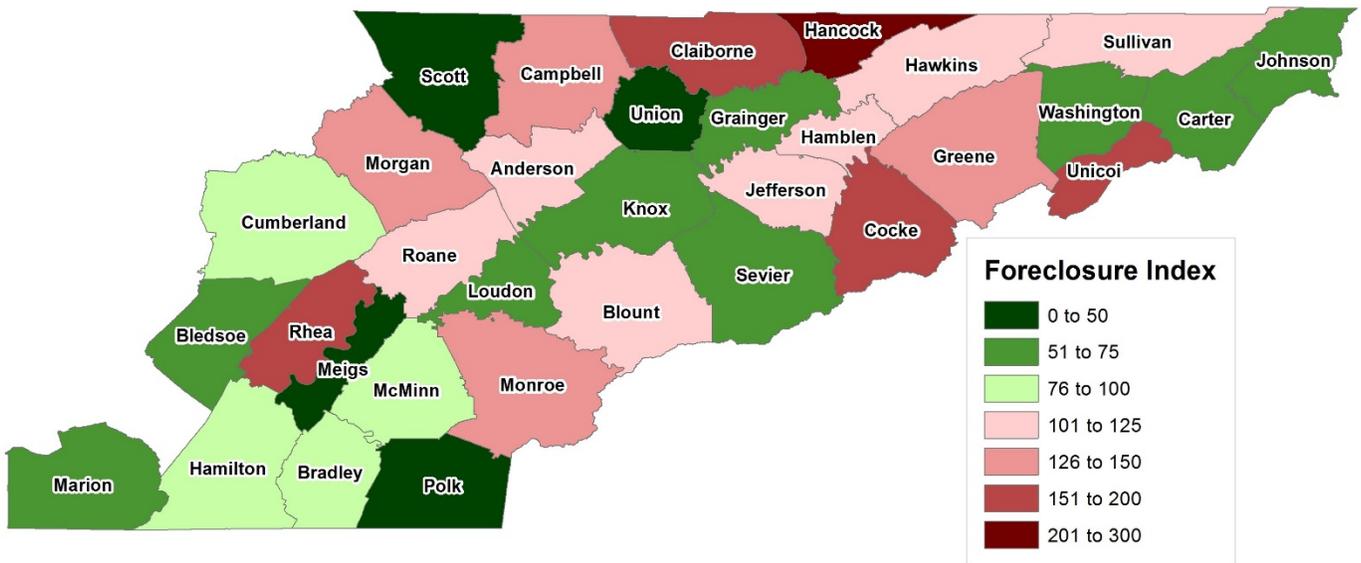


Although Shelby County fell out of the top 10 of the Foreclosure Index in the first quarter, it rose up to number nine in the Index for the second quarter. As the above chart displays, however, Shelby County's raw foreclosure totals continue to decline substantially. Robertson County, shown above, had a second consecutive quarter of above-average foreclosure decline, while Sequatchie, Henderson, and Union Counties also had strong declines relative to their size.

Maps 11 through 14 display the county-level Foreclosure Index, broken down by Grand Division. To illustrate where the bulk of foreclosure volume occurs, irrespective of rates, Map 15 is included, showing zip-code level foreclosure totals, which are concentrated in Shelby County largely due to its population.

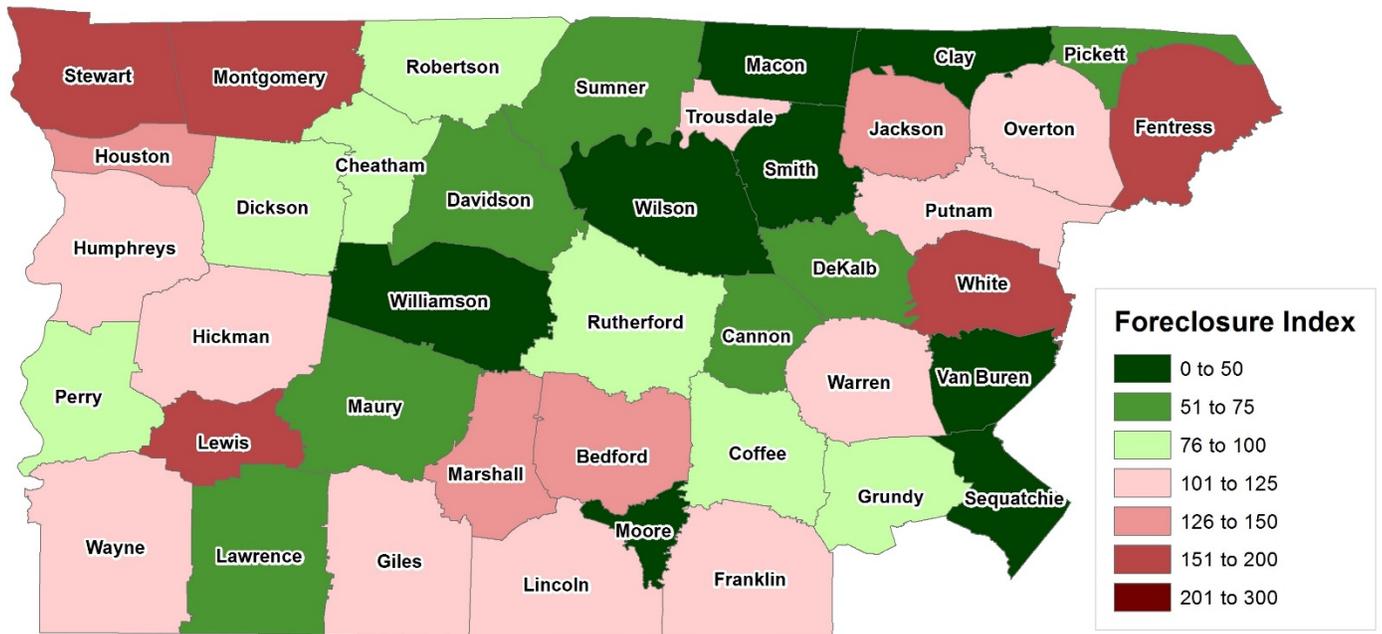
Map 11

East Tennessee Foreclosure Index Values by County



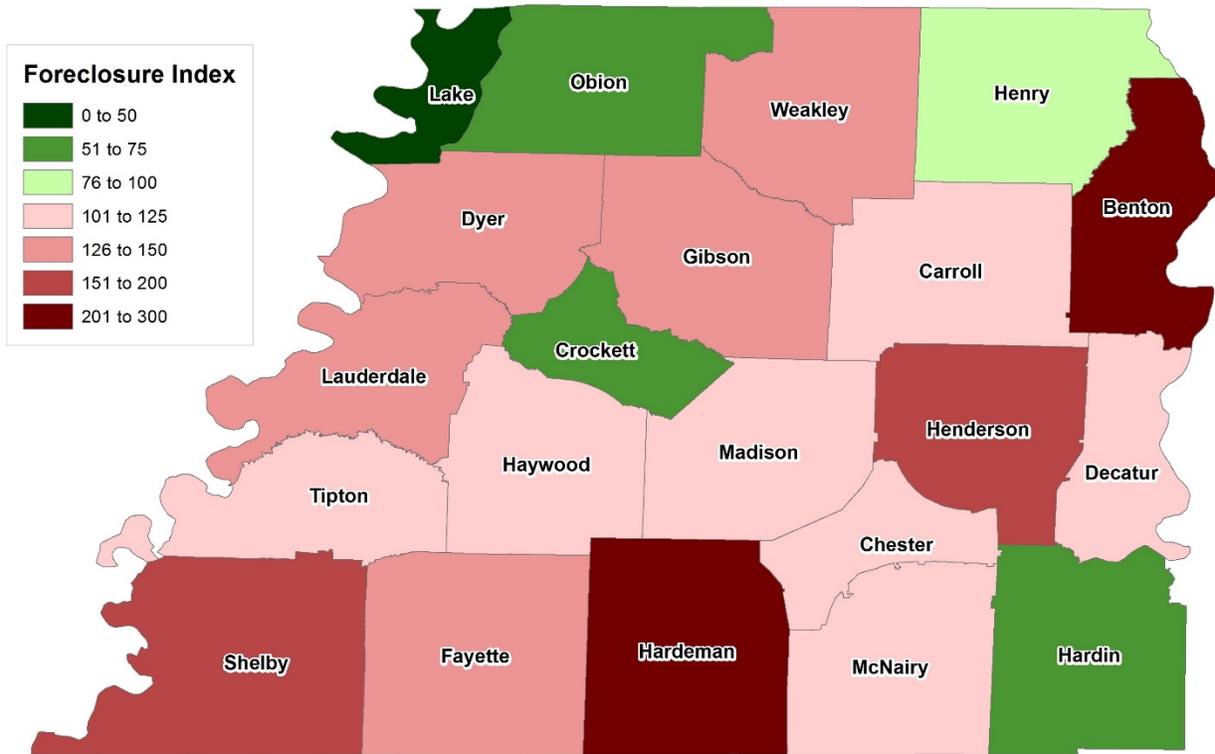
Map 12

Middle Tennessee Foreclosure Index Values by County



Map 13

West Tennessee Foreclosure Index Values by County

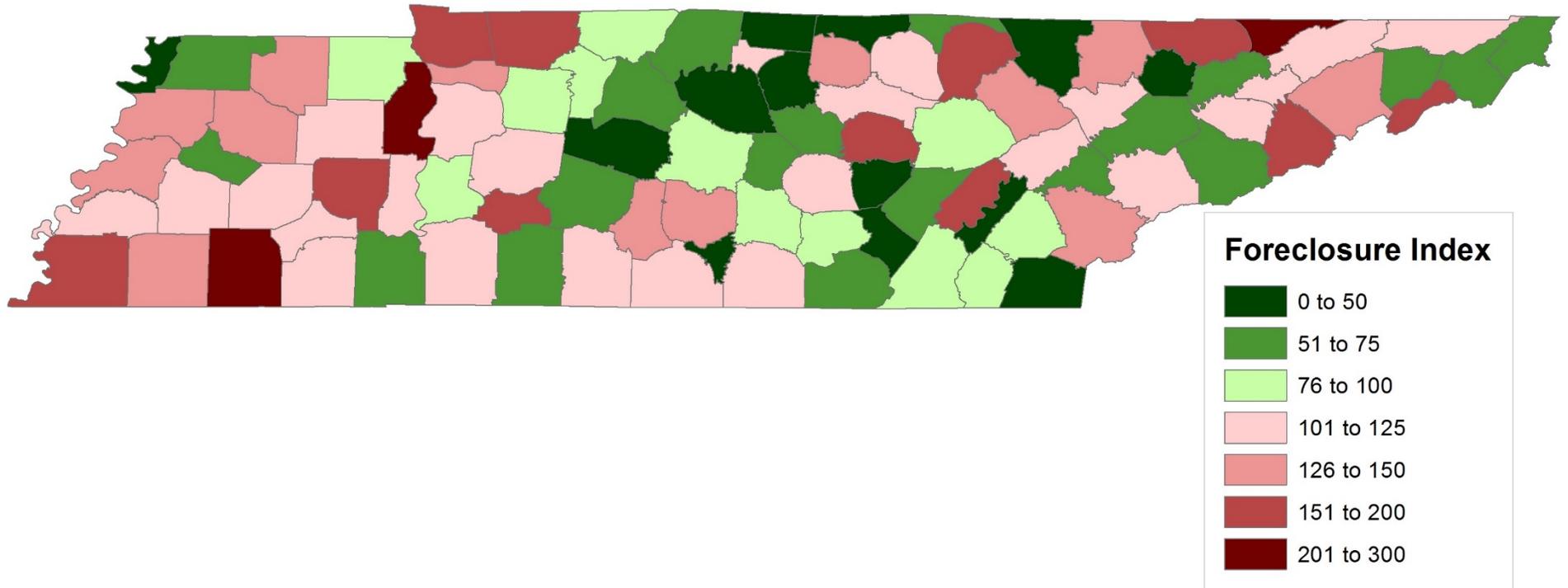


Top 5 Tennessee Zip Codes for Foreclosure Index*

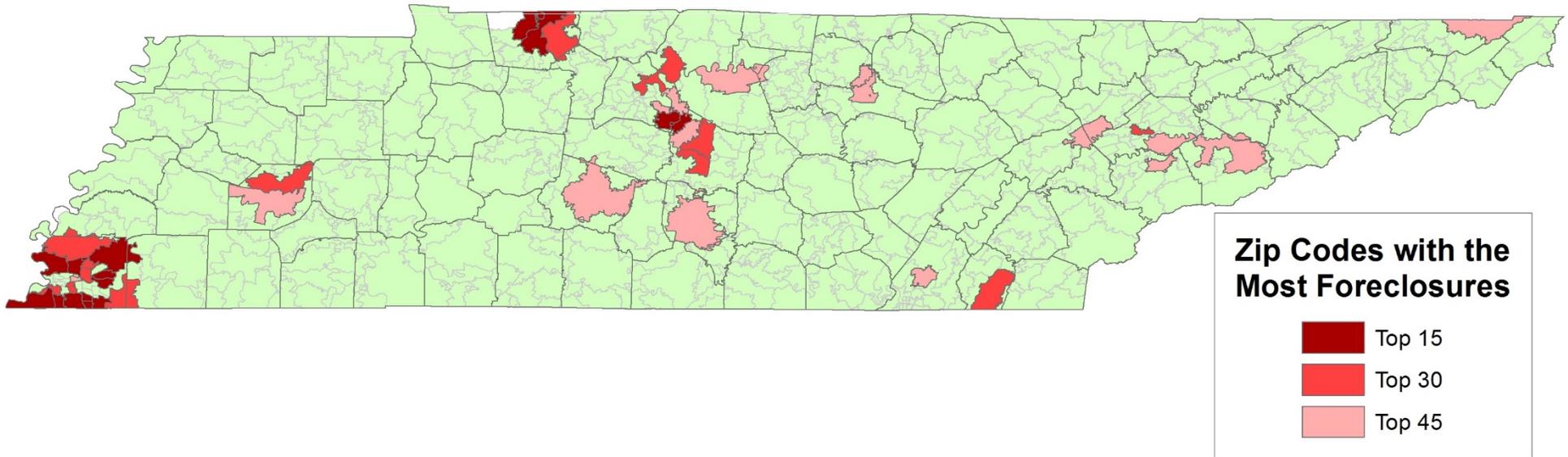
38356	[Madison; Medon]	Index Value=671
38374	[Henderson/Decatur; Scotts Hill]	Index Value=642
38105	[Shelby; Memphis]	Index Value=511
37142	[Montgomery; Palmyra]	Index Value=507
38461	[Maury; Hampshire]	Index Value=671

Excluding Zip Codes with fewer than 100 loans

Tennessee Foreclosure Index Values by County



The Top Tennessee Zip Codes for Foreclosures



Top 5 Tennessee Counties for Foreclosure Volume

- Shelby**
- Davidson**
- Knox**
- Montgomery**
- Hamilton**

Top 5 Tennessee Zip Codes for Foreclosure Volume

- 37042** [Montgomery; Clarksville]
- 38125** [Shelby; Memphis]
- 37013** [Davidson; Nashville]
- 38128** [Shelby; Memphis]
- 38141** [Shelby; Memphis]

Appendix: Tennessee's 95 Counties, Complete Index

2nd Quarter 2016

County Name	Statewide Ranking (1 through 95)			Index Values		
	Delinquency	REO	Foreclosure	Delinquency	REO	Foreclosure
Anderson	54	59	44	100	118	111
Bedford	42	62	23	111	107	133
Benton	26	86	2	133	24	263
Bledsoe	13	2	81	141	556	56
Blount	77	71	51	75	80	101
Bradley	30	60	52	119	116	100
Campbell	17	24	20	138	242	138
Cannon	68	93	74	86	0	67
Carroll	18	44	40	138	153	117
Carter	58	67	66	95	84	75
Cheatham	70	70	63	84	82	76
Chester	36	35	34	114	180	119
Claiborne	47	28	10	109	213	159
Clay	94	95	95	24	0	0
Cocke	19	29	6	136	200	172
Coffee	74	58	62	81	122	77
Crockett	10	31	79	146	191	63
Cumberland	90	33	60	65	187	85
Davidson	85	85	77	69	29	65
Decatur	73	17	49	81	273	101
DeKalb	69	18	73	85	269	67
Dickson	56	61	58	96	111	87
Dyer	15	72	27	139	78	125
Fayette	37	46	24	113	151	130
Fentress	82	43	7	72	156	169
Franklin	66	66	50	88	87	101
Gibson	21	42	19	134	156	140
Giles	25	74	35	133	78	119
Grainger	57	65	82	96	93	54
Greene	53	37	21	102	169	136
Grundy	16	90	57	139	0	89
Hamblen	51	39	39	103	167	117
Hamilton	49	76	61	104	73	81
Hancock	5	5	1	178	402	296
Hardeman	1	27	3	262	224	250
Hardin	79	55	75	74	124	67
Hawkins	50	16	43	103	273	112
Haywood	3	34	38	245	180	117

County Name	Statewide Ranking (1 through 95)			Index Values		
	Delinquency	REO	Foreclosure	Delinquency	REO	Foreclosure
Henderson	7	23	14	167	249	157
Henry	71	63	56	82	104	91
Hickman	23	21	37	134	253	117
Houston	46	4	17	110	449	146
Humphreys	22	9	33	134	291	119
Jackson	38	15	22	113	276	135
Jefferson	62	38	41	92	169	116
Johnson	78	13	70	74	280	72
Knox	87	68	69	67	84	72
Lake	4	6	93	199	344	0
Lauderdale	2	7	18	257	336	141
Lawrence	55	57	65	98	122	75
Lewis	59	49	11	94	144	159
Lincoln	52	47	46	102	151	110
Loudon	80	52	64	74	136	75
Macon	67	79	90	86	60	37
Madison	12	40	29	145	162	124
Marion	24	12	76	134	280	66
Marshall	41	45	16	111	153	147
Maury	84	82	80	70	47	61
McMinn	27	50	53	129	144	98
McNairy	8	11	30	151	282	123
Meigs	29	19	89	121	267	41
Monroe	34	10	25	115	287	129
Montgomery	35	53	8	114	133	169
Moore	72	30	87	82	200	49
Morgan	44	78	15	110	62	148
Obion	64	73	67	89	78	75
Overton	81	87	48	73	18	104
Perry	92	36	54	53	173	95
Pickett	93	94	78	30	0	63
Polk	45	22	86	110	251	49
Putnam	88	77	45	67	73	111
Rhea	14	69	5	140	82	172
Roane	33	14	31	116	276	122
Robertson	39	64	55	113	96	94
Rutherford	75	84	59	81	29	86
Scott	65	20	85	89	267	49

County Name	Statewide Ranking (1 through 95)			Index Values		
	Delinquency	REO	Foreclosure	Delinquency	REO	Foreclosure
Sequatchie	9	3	84	148	451	49
Sevier	89	32	72	66	187	68
Shelby	6	41	9	175	162	168
Smith	83	88	88	71	16	46
Stewart	31	8	4	118	318	192
Sullivan	63	51	42	90	138	113
Sumner	76	80	71	78	60	69
Tipton	11	56	28	145	124	124
Trousdale	48	81	36	108	47	119
Unicoi	60	91	13	93	0	158
Union	28	26	91	124	227	34
Van Buren	61	92	94	93	0	0
Warren	32	48	32	117	144	120
Washington	86	75	68	68	78	75
Wayne	40	1	47	113	636	108
Weakley	43	54	26	111	127	125
White	20	25	12	135	240	158
Williamson	95	89	92	21	11	21
Wilson	91	83	83	55	38	50